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UNITED STATES DEPARTMENT OF AGRICULTURE

BULLETIN No. 860

Contribution from the Bureau of Markets
GEORGE LIVINGSTON, Chief

Washington, D. C. August 20, 1920

THE ORGANIZATION OF COOPERATIVE GRAIN ELEVATOR COMPANIES

By

J. M. MEHL, Investigator in Cooperative Organization, and
O. B. JESNESS, Specialist in Cooperative Organization

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WASHINGTON
GOVERNMENT PRINTING OFFICE
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INTRODUCTION.

This bulletin is primarily intended to furnish a plan of organization and method of procedure for persons required to assist in the formation of cooperative grain elevator companies. It should be of interest to producers contemplating organization, to ordinary private corporation types of farmers' elevators desiring to reorganize on the cooperative plan, and to persons interested in cooperative organization in general. While it has been prepared with special reference to conditions existing in the grain States, it is not intended to meet the particular requirements and conditions which are peculiar to any one State. Its scope is limited to matters which are regarded as fundamental and general, and the suggestions and recommendations made are to be considered with reference to and in connection with

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special cooperative laws and the laws governing corporations in each of the several States.

The success of any organization, whether cooperative or for private profit, will be found to rest upon: (1) Social or economic need; (2) a sound organization plan; and (3) efficient management. The lack of any one of these fundamentals impairs the whole.

A cooperative elevator company, like any other business organization, must rest first upon some substantial economic need. An organization may come into existence by means of propaganda and enthusiasm engendered to serve a political, fraternal, or idealistic purpose, but unless some substantial benefit or service is secured to the community such organization eventually must fail. The value to the community of any enterprise or undertaking is measured in direct proportion to the need therefor.

The plan of organization must be sound. This means that something more is necessary than mere statements of the high purposes and aim of the association. It means a definite and practicable plan of action, a plan which anticipates so far as it is possible to anticipate the practical problems and difficulties to be met in actual operations.

A cooperative enterprise in order to be successful must be conducted under efficient management and in accordance with a well-defined business policy. There has been too much tendency in the past to employ as managers men who are merely industrious and honest and who may not have that keen, discriminating judgment and tactful address so necessary in managerial positions.

FORMS OF ORGANIZATION.

In the United States three distinct forms of farmers' elevator organizations are found, namely, (1) joint stock companies and unincorporated societies; (2) ordinary private corporations of the capital-stock form; and (3) cooperative associations incorporated under special cooperative law.

JOINT STOCK COMPANIES.

The advantages of the joint stock company form of organization consist mainly in—

(1) The ease of effecting organization, no formal procedure being necessary.

(2) The saving of fees connected with incorporating.

(3) Exemption from certain taxes affecting corporations.

(4) Relief from the necessity of filing numerous corporate reports sometimes required of corporations.

The joint stock company is adapted principally to small and compact organizations which desire to utilize some of the features of

corporations and still retain a partnership relation between the members. For organizations made up of a large number of members each having a comparatively small financial interest it is neither a convenient nor a desirable form, and for that reason it has not gained general favor in the farmers' elevator field.

Some of the disadvantages of this form are:

(1) Each individual member of the company usually is jointly and severally liable for the entire company obligations.

(2) The company can sue only in the names of the individual members composing it or in the name of a person first duly empowered, and if it is made defendant in a suit only those members served with process are held.

(3) The company can not take, hold, or convey real estate by its company name, and every encumbrance or deed of conveyance must be executed in the names of the individual members, or by some person first authorized to act as their agent.

The grain business is attended with some hazard, no matter how well conducted, and few men are willing to assume the partnership liability which usually follows the joint stock company form of organization.

ORDINARY PRIVATE CORPORATIONS.

The corporation-for-profit form of organization has predominance in number at the present time, although there is a decided tendency to reorganize under recently enacted State cooperative laws. During the period when the farmers' elevator movement had its most rapid development the ordinary corporation-for-profit form was about the only possible corporate form of organization and it was adopted from necessity rather than from choice. Comparatively few corporations were organized which did not attempt with by-law provisions to secure some of the cooperative features specially authorized by later statutory enactment. Among these were the one-man, one-vote principle; limitations upon share ownership; and, to some extent, but not generally, the patronage refund and restricted dividend on capital stock, which now are considered the backbone of a really cooperative company. Considering that many of these features were without legal license and that they depended for effect entirely upon the mutual consent of the members, it is remarkable that the corporation-for-profit form has endured so well. However, the difficulties usually do not develop until the membership character begins to change, through the retirement of members from active farm life, and the interests of stockholders become those of investors rather than of producers.

A large majority of the 4,000 or more farmers' elevator companies in the United States have at the time of organization been coopera-

tive in purpose, if not in form or effect. Of the whole number perhaps one-third now are cooperative in the sense that earnings over and above operating expenses and a reasonable rate of interest on capital are distributed on the basis of patronage furnished. It is this feature of patronage refund and limitation of dividends upon capital stock to an interest charge which slowly but surely is establishing a class of farmers' elevators that are properly designated as cooperative. The term "farmers' elevator" is properly applied to all forms of elevator organizations owned and controlled in the main by farmers, but it is doubtful whether the term "cooperative elevator" will long be considered applicable to those organizations which have not adopted the patronage dividend or refund system in the distribution of earnings.

THE COOPERATIVE FORM.

The form of organization which under existing conditions and law will most effectively promote and protect the fundamental and now generally recognized cooperative principles is the form in which farmers' elevator organizations are interested. For shipping associations which do not buy outright the products of their members and which act only in the capacity of selling agent, the nonstock form [1] is perhaps best suited to conserve cooperative principles. In the case of farmers' elevators, however, which require considerable fixed capital, and which buy and sell grain and other products and supplies on a profit above cost basis, it is doubtful whether anything but a capital stock form of organization can be employed to advantage at present. Most of the grain States now have cooperative laws which authorize patronage dividends and other cooperative features. These laws are not uniform in all of the States, nor do they meet every requirement, but organization under them offers the best form at present, and will secure the benefits of any future amendments and changes in the law which are not inconsistent with present provisions. Among the cooperative principles not yet provided for in the cooperative laws of some of the States the following may be mentioned:

(1) Limitation of voting power to one vote per member, regardless of the number of shares or the amount of capital stock owned.

(2) Limitations upon the number of shares or amount of capital stock that any single member may own.

(3) Restrictions upon the power to sell or dispose of shares of stock except to persons acceptable for membership in the association.

It may be that in states where each stockholder is entitled to one vote for each share of stock owned, what amounts to a one-man, one-vote rule may be secured by issuing only one share of stock to each

[1] For description see U. S. Department of Agriculture Bulletin 541, Cooperative Organization By-laws, by C. E. Bassett and O. B. Jesness, 1918.

member but providing different classes of stock with shares of varying par value. Some of the desirable cooperative features which are not especially authorized by the laws under which an organization is incorporated and which might not be valid as a by-law provision alone, may possibly be secured by means of a contract arrangement made at the time of issuing the stock certificate. Any and all by-law provisions in regard to which there is any doubt should be made the subject of a special contract by having them printed upon the stock certificates. This will also have the effect of giving notice of the restrictions to possible purchasers.

MAKING PRELIMINARY SURVEY.

Before the organization of a cooperative elevator company is attempted or advised, a careful and unprejudiced survey of local conditions should be made in order to determine the economic need for the organization and to secure information that will be of assistance when the work of actual organization is undertaken later.

LOCAL CONDITIONS.

First it will be desirable to study the conditions under which grain is generally marketed in the particular local community in which organization is contemplated. Whether or not that community normally is devoted to feeding or to shipping is of importance in this connection. The fact that marketing facilities are grossly inadequate one year does not necessarily indicate that other and additional facilities can be supported advantageously during a series of years. A fair comparison should be made between prices paid by local dealers and prices obtaining in the principal terminal markets, with due reference to freight and other charges deductible therefrom. It must not be imagined, however, that every daily newspaper can at all times be relied upon to report terminal values fully and accurately. It frequently occurs that even if such values are quoted accurately, there are coexisting conditions under which the prices are not available to the local buyer, and therefore are not applicable to current purchases in the country. In making a study of local marketing conditions it will be desirable to secure the services and advice of some practical grain man. If available, the advice of managers of successful neighboring associations will be especially valuable.

Information regarding the amount of grain shipped from any station during a period of several years should be obtained from local representatives of railroads, from the general offices of such railroads, or from State commissioners or bodies having charge of transportation matters within the State. Having determined the average volume of grain shipped from a certain station annually, its division among already existing agencies and dealers should be

considered. The volume of business which any single elevator is able to control will largely determine the minimum margin per bushel that is required to meet the overhead and operating expenses. The operating cost per bushel necessarily must be greater in handling 100,000 bushels per year than it would be in handling 200,000 bushels per year. This applies with particular force to elevators dealing in grain exclusively. Of course, elevators which look to an extensive merchandise business for their main source of income may handle a small volume of grain with very little additional cost. Not infrequently such operators use their grain business as a feeder to their more profitable merchandise business, in which case competing elevators, handling grain exclusively, are placed at a decided disadvantage.

Although the community need for cooperative marketing can not always be judged from the number of existing commercial agencies, for cooperative marketing may be made necessary at times by reason of having too many such agencies, their number and character become of vital importance in estimating the probable success of additional marketing facilities. Hence, if from a conservative study of local conditions and as a strictly business proposition, it does not appear that a coorperative company is likely to be successful, its organization had better be held in abeyance.

PROSPECTIVE MEMBERSHIP.

Having studied the local conditions and the need for organization, it will be desirable to test the community sentiment and desire. A cooperative elevator to be successful must, first of all, have a membership considerable in number and sufficient to insure a dependable patronage from the start. Prospective membership should be determined, if possible, by actual personal canvass of the community. General mass meetings are desirable for the purpose of acquainting the public with the principles of cooperative marketing and for the purpose of free and open discussion of the need therefor; but for the purpose of a concrete and physical appraisal of membership, nothing will serve so well as a formal expression from each interested person. Every community has "chronic enthusiasts" who are in favor of everything that is proposed, but who, when the time comes for assuming definite obligations, find it easier to make excuses. The personal canvass may be made at any time, before, at, or following a general meeting, when the people have been thoroughly acquainted with the objects of the proposed organization.

CAPITAL.

The matter of capital requirement is important and the preliminary survey should be extended to cover a careful estimate of the

capital which the prospective membership may be expected to furnish. This estimate will be of value in apportioning the equitable share of the total capital requirement that each member should furnish when solicited for stock subscription and when the capital requirement has been definitely determined.

Too often subscription lists are circulated and prospective members solicited to subscribe for as much as they can afford up to a certain maximum amount. This method may be effective in raising the required amount of capital quickly, but may also result in eliminating many desirable members because of relaxation of effort when sufficient capital is in sight. Prospective members will subscribe more readily and more liberally when solicited for a definite amount, which has been determined and apportioned according to an equitable estimate of what should be furnished by each.

VOLUME OF TRADE.

Under the head of local conditions, brief reference has been made to the volume of business that might be expected to originate in the community as a whole and its division among already existing agencies. A consideration of prospective volume from this angle is important, but in addition a careful canvass should be made of the patronage which prospective members may be depended upon to furnish. While considerable patronage may be obtained from nonmembers when such patronage is solicited, it is better not to depend upon it, for not infrequently the possible increase in volume from this source is more than offset by patronage which members will give to other agencies and dealers. It is a mistake to assume that when a cooperative elevator has been established it will receive most of the local grain business as a matter of course. While successful cooperative elevators usually handle the bulk of a station's grain, they do so because of having first laid a substantial foundation in the form of a large producing membership.

METHOD OF SURVEY.

First, one or more general meetings may be held, at which the need and readiness of the community for cooperative organization should be thoroughly discussed. Every person present should have an opportunity to express himself, but the meeting should not take the form of a protest meeting in which one or two persons are allowed to monopolize the time in abusing the existing agencies and dealers. Such procedure results only in estranging men who come for constructive purposes and for discovering practical means to improve their condition. It will be desirable to have present some person who understands cooperative organization and marketing methods for the purpose of answering questions and outlining organization plans. Such assistance usually can be obtained upon

application to the agricultural college of the State or to the Bureau of Markets, United States Department of Agriculture. In a number of States there are farmers' grain dealers associations whose secretaries are in a position to furnish valuable assistance.

At or following these meetings, or in lieu of them, where it is found desirable to conduct the preliminary survey quietly, a tentative subscription list may be circulated on which is shown the names of prospective members, the amount of capital which each prospective member thinks he can subscribe, and a conservative estimate in bushels of the grain which he markets annually.

It may seem to be a duplication of effort to secure this tentative list of subscribers, and there may be conditions under which it will be desirable to eliminate it. In any event a list of prospective members, with an estimate of the capital and patronage to be furnished by each, should be prepared in some form. This list may be used to advantage as a basis for study and apportionment when later the actual capital subscriptions are solicited.

The preliminary survey may be made by committees appointed at the first general meeting or by persons interested in the project. If it is impracticable to secure actual signatures to the tentative subscription list, then a list should be prepared in memorandum form, from the best information available and with the assistance of some one having an extensive acquaintance and knowledge of persons and property in the community.

When the survey of local conditions and prospective membership, capital, and patronage has been completed, it will be desirable to determine in a general way the character and cost of the plant and equipment necessary to handle the business. Again, the advice of other associations in successful operation will be valuable. Contractors and builders of elevators will usually furnish estimates and sometimes blue prints and plans for elevators of varying capacity. No intensive study of building plans is necessary at this time. The approximate amount of capital required to provide a plant is the only purpose of the study.

ORGANIZATION.

ORGANIZATION MEETING.

Assuming that the preliminary survey has shown an economic need and a genuine community desire for organization, we are ready to consider organization procedure. At this stage it will be necessary to call a general meeting for the purpose of perfecting a temporary organization and appointing the various committees necessary to carry on the actual work of organization. In case former meetings have been held and have been well organized and

conducted with parliamentary form and order, the chairman and secretary of these meetings may act at the present meeting. If no former meetings have been held, the house should proceed to elect a chairman and secretary and appoint the following committees: (1) Committee on membership and stock subscription; (2) committee on incorporation and by-laws; and (3) committee on buildings and plant site.

These committees may consist of any number of persons but should not be made too large. From three to five members on each committee are sufficient, and no objection can be made to having the same person serve on more than one committee.

At this meeting the plan of organization should be thoroughly discussed in order that the several committees may be instructed relative to the wishes of those present. If the preliminary survey has been well conducted, a report, together with the recommendations of the committee or persons conducting it, will furnish a substantial basis upon which to build the organization plans proper. The amount of capital, number of members, and probable volume of business to be depended upon will be approximately known, and the amount of capital stock and the number and par value of shares should be fixed at this meeting. It will be desirable also to consider some of the more important cooperative principles to be embodied in the by-laws, for which purpose the form of by-laws suggested in this bulletin may be presented and discussed.

BY-LAWS.

While the organization is yet of temporary character and therefore is without authority to adopt by-laws that will be binding upon the future subscribers or stockholders, it sometimes is found desirable, if a large number of prospective members are present, to adopt such by-laws tentatively, and even to elect the directors, who may later be made permanent. If this course is followed, the by-laws should be considered as carefully and as seriously as if the action were final, for it will be expected that the persons who later act as incorporators, and who then go through the form of legally adopting the by-laws and electing directors, will follow to the letter the actions taken by the larger body of prospective members. Some States require that the names of the first directors appear in the charter; in others it is necessary to secure a license for commissioners to solicit stock subscriptions. The form differs in different States, but when definite and complete by-laws can be adopted by a large number of the prospective members, even if this action is without legal effect, it provides something tangible to work on, and the actual work of perfecting a duly incorporated organization according to statutory

form becomes a simple matter. As a matter of fact, formal organization, including incorporation, adoption of by-laws, and election of the first directors, is a technical procedure that can be carried out more expeditiously and with greater exactness by a small number of incorporators than by a large body of members meeting under conditions not always favorable to deliberate and orderly procedure.

A form of by-laws that is believed to embody the principles of cooperation most necessary to observe in a cooperative grain elevator company is given below. With slight modifications it should furnish a practical plan of organization under the laws governing capital stock forms of cooperative associations and companies in most of the grain States.

The notes following some of the sections are explanatory, and, of course, are to be omitted in the by-laws adopted by the organization. The by-laws when read in connection with the explanatory notes are thought to be sufficiently descriptive of the plan without further detail here.

These by-laws should be regarded as suggestive only, and they should be changed to meet the individual and local needs of an association as well as to conform to governing State laws.

Suggested Form of By-laws for Cooperative Grain Elevator Companies.[1]

Article I.—Corporate Purpose.

Section.
1. Name and location.
2. Objects.
3. Powers.

Article II.—Capital Stock.

1. Authorized.
2. Treasury stock.
3. Stock certificates.
4. Stock receipts.
5. Stock transfers.
6. Lost certificates.

Article III.—Membership.

1. Qualifications.
2. Termination.
3. Restrictions.
4. Reversions.
5. Annual meetings.
6. Special meetings.
7. Notice of meetings.
8. Quorum.
9. Proxies.
10. Order of business.

Article IV.—Directors and Officers.

1. Election of directors.
2. Election of officers.
3. Vacancies.
4. Quorum.
5. Compensation.
6. Removal.

Article V.—Duties of Directors.

1. Management of business.
2. Employment of manager.
3. Bonds.
4. Meetings.
5. Annual audits.
6. Depreciation.
7. Educational work.

Article VI.—Duties of Officers.

1. President.
2. Vice President.
3. Secretary.
4. Treasurer.

Article VII.—Duties of Manager.

1. In general.
2. Duty to account.
3. Duty to insure.
4. Control of help.

[1] These by-laws were prepared with the cooperation of secretaries of State Farmers' Grain Dealers Associations.

ARTICLE VIII.—EARNINGS.

1. Apportioned:
   (a) Surplus.
   (b) Dividend on capital stock.
   (c) Educational.
   (d) Patronage refund.
2. Method of refund:
   (a) Grain rate.
   (b) Miscellaneous products rate.
   (c) Merchandise rate.
3. Members' share.
4. Nonmembers' share.
5. Disposal of unapportioned share and nonmembers' unapplied refund.
6. Notice of refund due nonmembers.
7. Capital impairment.

ARTICLE IX.—SUNDRY PROVISIONS.

1. Fiscal year.
2. Indebtedness.
3. Extension of credit.
4. Collective buying.
5. Withholding dividends.
6. Withholding patronage refunds.
7. Emergency capital.
8. Speculation.
9. Corporate seal.
10. Amendments.

ARTICLE I.—CORPORATE PURPOSE.

SECTION 1. *Name and location.*—This Association shall be known as [The _____ Grain Growers' Cooperative Association][1] and shall be incorporated under the laws of the State of _____. Its principal office shall be located in the town of _____, county of _____, in the State of _____.

NOTE.—Some of the State cooperative laws provide that the word "cooperative" shall form a part of the name of organizations incorporated thereunder. All associations should be incorporated under the laws of the State in which they are located.

SEC. 2. *Objects.*—The objects of this Association shall be to encourage better and more economical methods of production; to save to its members and others all unnecessary cost in the marketing and distribution of grain, seeds, live stock and farm products of all kinds; to buy cooperatively fertilizers, feeds, fuel, machinery, and all material and supplies ordinarily used on the farm; to cultivate and develop cooperative activity, and to perform any other work which may tend to benefit its members or the community in general.

SEC. 3. *Powers.*—This Association shall have power to buy and sell and otherwise deal in, for its own account or on commission, any or all of the products and supplies described in section 2 hereof; to operate grain warehouses and flour and feed mills; to prepare and distribute cooperative literature and educational matter; to lease, buy, build, own, improve, mortgage, sell, and control such buildings and other real and personal property as may be necessary to conduct the business or as the association may from time to time determine. It shall have power to affiliate and cooperate, by membership or otherwise, with any other cooperative company or association; to subscribe and invest, not to exceed [twenty-five per cent] of its capital stock and surplus, in the capital stock of any other cooperative company or association having the same or similar objects and purposes as this Association, but no such action shall be taken except at a regular meeting or a special meeting called for the purpose at which [a majority] of all the members shall be present or voting. It shall have power to do anything and everything, not inconsistent with law, which is necessary or desirable to accomplish the objects and purposes herein stated.

NOTE.—The objects and powers of the Association should be stated as definitely as possible, but they should also be made sufficiently broad to cover any future activities. State statutes will have to be consulted in order to determine what may or may not be included in this article.

[1] All matter appearing in brackets is suggestive only and is to be altered to suit the best interests of each individual association.

ARTICLE II.—CAPITAL STOCK.

SECTION 1. *Authorized.*—The authorized capital stock of this Association shall be [twenty-five thousand dollars] divided into [five hundred] shares of the par value of [fifty dollars] each. All shares shall be full paid and nonassessable and the Association shall not commence business until [fifteen thousand dollars] shall have been subscribed and paid in.

NOTE.—The amount of capital stock must be determined with reference to the cost of plant, the volume of business to be handled, and the membership of the Association. Share value must be low enough not to exclude any one from membership yet high enough to provide the necessary capital.

SEC. 2. *Treasury stock.*—The treasury stock of this Association shall consist of such issued and outstanding stock of the Association as may be donated to or otherwise be acquired by it, and shall be held subject to disposal by the Board of Directors.

SEC. 3. *Stock certificates.*—Certificates of stock shall be issued to each holder of full-paid stock. Each certificate shall state the par value of the stock, the number of shares represented, the name of the person to whom issued, and shall bear the signatures of the President and Secretary and the seal of the Association and be numbered and issued in numerical order from the stock certificate book. Each certificate shall bear the following statement:

"This certificate No. —— is issued and accepted in accordance with and subject to the conditions and restrictions stipulated in the By-Laws and amendments to the By-Laws of [The ——— Grain Growers' Cooperative Association] and more specifically in [section 5 of Article II and sections 2, 3, and 4 of Article III] to wit: [Herein insert those sections of By-Laws which relate to transfer of shares, termination of membership, and restrictions upon share ownership and voting power], all of which is made a part of the signed agreement and receipt which appears on the stub-record bearing the same number and date as this certificate."

SEC. 4. *Stock receipts.*—A record of each certificate of stock issued shall be kept on the stub thereof and each certificate issued shall be receipted for on the stub in the following form:

"In consideration of the issuance to me of this certificate of stock No. —— for —— shares of the capital stock of [The —— Grain Growers' Cooperative Association] of ———, ———, I do hereby agree to all of the conditions, restrictions, limitations, and reservations stipulated in the By-Laws and amendments to the By-Laws of this Association, and more specifically in [section 5 of Article II and sections 2, 3, and 4 of Article III], which are set out in full on the certificate and made a part of this agreement. I have received the said certificate of stock this —— day of ———, 19—.

———— ————,
(Signature of Member.)

Witness: ———— ————

NOTE.—Printing the By-Law restrictions upon the body of the stock certificate is a convenient and effective means of giving notice of such restrictions to intending purchasers. The receipt form here suggested will constitute a written contract relative to the observance of these restrictions.

SEC. 5. *Stock transfers.*—Transfers of stock shall be made only upon the books of the Association, and before a new certificate is issued the old certificate must be surrendered for cancellation. The transfer of stock may be refused unless any and all indebtedness to the Association by the member shall first be paid. The stock books of the Association shall be closed for transfer [ten] days before

the annual membership meeting and [ten] days before the time set for payment of interest and patronage refunds.

SEC. 6. *Lost certificates.*—The Board of Directors may order new certificates of stock to be issued in the place of any certificates alleged to have been lost or destroyed, but the owner of the lost certificate shall first cause to be given to the Association a bond in such sum, not less than the par value of such lost or destroyed certificate, as said Board may direct, as indemnity against any loss or claim that the Association may incur by reason of such issuance of stock certificates, or, in the discretion of the Board of Directors, a new certificate may be issued upon filing with the Secretary an affidavit properly certifying the loss of the original certificate.

ARTICLE III.—MEMBERSHIP.

SECTION 1. *Qualifications.*—Any producer of farm products or any person who may be a user of any of the products and supplies handled by the Association and a patron or prospective patron thereof in any territory tributary to the shipping points of this Association may upon application accepted by the Board of Directors become a member of this Association by agreeing to comply with the requirements of these By-Laws and becoming the owner of at least one share of its capital stock.

NOTE.—There may be conditions under which it would be wise to limit membership to those who have been recommended by the Board of Directors or who have received a two-thirds vote of the members present at any meeting.

SEC. 2. *Termination.*—At any time a member shall remove from the territory tributary to the shipping points of this Association, the Association may elect to purchase his shares of stock and to terminate his membership upon tender to him of the book value of his shares as determined from the last preceding financial statement, together with any dividends or refunds due and unpaid, less any indebtedness then due the Association. Such shares shall then become treasury stock of the Association.

SEC. 3. *Restrictions.*—No member shall own more than ------ shares of the capital stock of this Association at any one time, and no member shall be entitled to have more than one vote at any meeting of the members, regardless of the number of shares owned. Every member upon uniting with this Association agrees that in case he shall desire to dispose of his shares of stock in the Association, the Association shall have the first right to purchase the same at their book value, and that no offer of assignment or sale shall be made to any person or interest until the Association shall fail either to waive this right or to purchase the shares after ------ days' notice in writing.

Any transfer of shares by assignment or sale shall give the assignee or purchaser no other right than to require upon ------ days' notice in writing, an election by the Board of Directors either to admit the holder to membership or to tender him the book value of such shares together with any dividends and refunds then due and unpaid.

SEC. 4. *Reversions.*—If any member shall by purchase or by operation of law come into possession of more than ------ shares of the capital stock of this Association, the Board of Directors may elect to purchase such excess shares upon tender to him of the book value thereof together with any dividends or refunds due and unpaid. Also in the event of the death or disability of the owner of any shares of stock in this Association, such shares of stock shall revert to the Association upon the tender of payment by it to his heirs or legal

representative, the book value of same together with any dividends or refunds due and unpaid, or it may elect to transfer such shares to his heirs or legal representatives.

NOTE.—For legal effect, sections 2, 3, and 4 above depend entirely upon the charter provisions and the laws of the State in which the Association is incorporated. They are suggested here as possible means of safeguarding cooperative principles and are to be incorporated into or excluded from the By-Laws upon the advice of competent legal counsel.

SEC. 5. *Annual meeting.*—The annual meetings of the members of this Association shall be held in the town of _____, State of _____ on the [last _____ in _____] of each year at one o'clock p. m., if not a legal holiday, but if a legal holiday on the next business day following.

NOTE.—A number of companies have determined upon Saturday for the annual meeting, but it is suggested that some other day may be better, since among many farmers Saturday is given to shopping and other business affairs, making it difficult to secure an interested attendance.

SEC. 6. *Special meetings.*—Special meetings of the members may be called at any time by resolution of the Board of Directors and shall be called at any time upon the written request of [a majority] of the members. Such request shall state the time and place of meeting and the object of meeting.

SEC. 7. *Notice of meetings.*—Written or printed notice of meetings for every regular or special meeting of the members shall be prepared and mailed to the last known post-office address of each member not less than ____ days before a regular meeting, nor less than ____ days before a special meeting, and if for a special meeting such notice shall state the object or objects thereof and the time and place of meeting.

SEC. 8. *Quorum.*—A quorum shall consist of —— of the members qualified under section 1, hereof, represented in person. A majority of such quorum shall decide any question that may come before the meeting, except as otherwise provided.

NOTE.—When the organization is small and compact, the proportion required for a quorum may be larger than in a large organization which includes considerable territory.

SEC. 9. *Proxies.*—Voting by proxy shall not be permitted, but absent members may vote on specific questions, other than the removal of directors, by ballots transmitted to the Secretary of the Association by registered mail, and such ballots shall be counted only in the meeting at the time at which such vote is taken.

SEC. 10. *Order of business.*—The order of business at the annual meeting and so far as possible at all other meetings of the members shall be:

(1) Calling of roll.
(2) Proof of due notice of meeting.
(3) Reading and disposal of any unapproved minutes.
(4) Annual reports of officers and committees.
(5) Election of directors.
(6) Unfinished business.
(7) New business.
(8) Adjournment.

ARTICLE IV.—DIRECTORS AND OFFICERS.

SECTION 1. *Election of Directors.*—The Board of Directors of this Association shall consist of [seven] members. The members of the first Board of Directors shall hold office until the first annual meeting of the members, when

their successors shall be elected from among the membership of the Association for terms of office as follows: [Three] for one year, [two] for two years and [two] for three years. Upon the expiration of the terms of the directors so elected their successors shall be elected for terms of [three] years. Directors shall hold office until their successors shall have been elected and have qualified and entered upon the discharge of their duties. The elections shall be by ballot and each member of record shall be entitled to cast one and only one vote for each Director to be elected. All elections except the first shall be conducted by two inspectors appointed by the President for the purpose.

NOTE.—In some States the corporation laws stipulate the number of Directors and officers an association shall have. If possible the Board of Directors should be so constituted that the various sections and geographical centers are represented. This tends to avoid jealousy and strengthens the confidence of the members. Some object to having a Director hold office for more than one year, claiming that the Board might be so objectionable to the members that it would be desirable to elect an entirely new Board at the annual meeting. However, there are many advantages in keeping some experienced Directors on each Board. In case the entire Board should go contrary to the wishes of the members, the recall of each Director could be effected under section 6 of this article. A number of companies have adopted the plan of having Directors elected for one year but provide that in elections the names of all the old Directors must be placed in nomination and that the number of additional nominees shall be less than one-half of the whole number of Directors. This arrangement effects to retain on the Board a number of members who are experienced; at the same time it affords opportunity to dispose of old members who may have proven unsatisfactory.

SEC. 2. *Election of officers.*—The Board of Directors shall meet within [ten] days after the first election and within [ten] days after each annual election, and shall elect by ballot from among themselves a President, Vice President, Secretary, and a Treasurer [or a Secretary-Treasurer]. Such officers, unless sooner removed, shall hold office for [one] year or until their sucessors are elected and have qualified.

SEC. 3. *Vacancies.*—Any vacancy in the Board of Directors shall be filled for the unexpired term at any annual meeting or at any special meeting called for the purpose in the manner provided for the original election of Directors. If any Director shall cease to be a member his office shall be declared vacant.

SEC. 4. *Quorum.*—A majority of the Board of Directors shall constitute a quorum at any meeting of the Board of Directors, but no proposition shall carry unless at least —— members of the Board shall vote in the affirmative.

NOTE.—It will be convenient to permit less than the full number of Directors to transact business, but there may be occasions when it would be desirable to guard against action by a mere majority of the minimum number required for a quorum.

SEC. 5. *Compensation.*—The compensation of the Directors and officers other than the Manager shall be determined by the members of the Association at any regular or special meeting of the Association.

SEC. 6. *Removal.*—Any Director of the Association may, for cause, at any annual or at any special meeting called for the purpose, at which a majority of the members shall be present, be removed from office by vote of not less than [two-thirds] of the members present. Each Director shall be informed in writing of the charges preferred against him at least [ten] days before such meeting and at such meeting shall have an opportunity to be heard in person, or by counsel, and by witnesses in answer thereto. Officers or agents of the Board of Directors may be removed from office or employment at any time by action of the Board of Directors.

NOTE.—In some cases, especially when the Board of Directors is large, it is desirable to have an executive committee. Such a committee can be made up of the President and two or more members of the Board.

ARTICLE V.—DUTIES OF DIRECTORS.

SECTION 1. *Management of business.*—The Board of Directors shall have general supervision and control of the business and the affairs of the Association and shall make all necessary rules and regulations not inconsistent with law or with these By-Laws, for the management of the business and the guidance of the officers, employees, and agents of the Association. They shall have installed an accounting system which shall be adequate to the requirements of the business, and it shall be their duty to require proper records to be kept of all business transactions.

NOTE.—The Bureau of Markets has devised systems of accounts for several lines of cooperative business, such as grain elevators, fruit organizations, creameries, live stock shipping associations, and stores. Information regarding systems of accounts may be obtained by writing to the Bureau of Markets, U. S. Department of Agriculture.

SEC. 2. *Employment of manager.*—The Board of Directors shall have power to employ and to dismiss a business manager, and to fix his compensation.

SEC. 3. *Bonds.*—The Board of Directors shall require the Manager and all other officers, agents, and employees charged by the Association with responsibility for the custody of any of its funds or property to give bond for the same. Such bond shall be furnished by a responsible bonding company approved by the Board of Directors, and the cost thereof shall be paid by the Association.

NOTE.—It is advisable to have bonds furnished by a bonding company for the reason that such companies usually investigate the past record of all applicants for bond, and also endeavor to keep a check upon their habits and behavior while bonded, thus rendering a specific service in addition to the bond protection.

SEC. 4. *Meetings.*—The Board of Directors shall meet four times per year, at least once in each quarter, at the principal office of the Association. Special meetings of the Board shall be held upon call of the President or upon written request of [three] members of the Board.

SEC. 5. *Annual audits.*—At least once in each year the Board of Directors shall secure the services of a competent and disinterested auditor or accountant, who shall make a careful audit of the books and accounts of the Association and render a report in writing thereon, which report shall be submitted to the members of the Association at their annual meeting. This report shall be based upon an actual physical inventory of all property, produce, merchandise, and moneys belonging or owing to and by the Association, and the last report shall furnish the basis for determining the book value of the shares of capital stock.

SEC. 6. *Depreciation.*—Annually the Board of Directors shall cause to be charged as part of the operating expense of the Association an amount not less than — per cent of the original value of all buildings, — per cent of the original value of all machinery, and — per cent of the original value of all office fixtures and equipment, which amount shall be reserved for depreciation.

NOTE.—Five per cent on frame structures, 2½ per cent on concrete and brick, and 10 per cent on machinery and office fixtures is generally regarded as reasonable. The rate of depreciation should be fixed with reference to kind of property and deductions allowable in making income tax returns under the Internal Revenue Laws.

SEC. 7. *Educational work.*—The Board of Directors are authorized to conduct educational work for the purpose of stimulating interest in cooperative activity: to subscribe for and have sent to the members such cooperative literature and publications as they may determine upon, and to obtain membership for this Association in any State association or other organization of cooperative companies which may tend to further the object and purposes of this Association.

ARTICLE VI.—DUTIES OF OFFICERS.

SECTION 1. *President.*—The President shall preside over all meetings of the Association and of the Board of Directors, sign as President with the Secretary or Secretary-Treasurer all stock certificates, notes, deeds, contracts, conveyances, agreements, and other instruments requiring such signatures, call special meetings of the Association and of the Board of Directors, and perform all acts and duties usually required of an executive and presiding officer.

SEC. 2. *Vice President.*—In the absence or disability of the President, the Vice President shall preside and perform the duties of the President.

SEC. 3. *Secretary.*—The Secretary shall keep a complete record of all meetings of the Association and of the Board of Directors, sign as Secretary, with the President, all stock certificates, notes, deeds, contracts, conveyances, agreements, and other instruments requiring such signature; serve all notices required by law and by these By-Laws; keep a complete record of all business of the Association, and make a full report of all matters and business pertaining to his office to the members at the annual meeting; make all reports required by law, and perform such other duties as may be required of him by the Association or by the Board of Directors.

SEC. 4. *Treasurer.*—The Treasurer shall receive, have the custody of, and disburse such moneys, notes, and securities as may come into his possession by virtue of his office or by direction of the officers of the Association, and shall not pay out any of the moneys so received or notes or securities held except on a written order of the Secretary countersigned by the President, unless otherwise ordered by the Board of Directors.

ARTICLE VII.—DUTIES OF MANAGER.

SECTION 1. *In general.*—Under the direction of the Board of Directors the Manager shall have general charge of the ordinary and usual business operations of the Association, including the purchasing, marketing, and distributing of all products and supplies; he shall conduct the business on a margin-above-cost basis, which margin shall be uniform and just on each kind or grade of grain, products, and supplies handled and which shall at all times be sufficient to meet the annual operating expenses and to provide the funds stipulated by divisions *a*, *b*, and *c*, of section 1, Article VIII, hereof. He shall deposit all moneys which come into his possession in a bank selected by the Board of Directors, and shall make all disbursements therefrom by check.

SEC. 2. *Duty to account.*—He shall be required to maintain his records and accounts in such manner as will at all times show the true and correct condition of the business. He shall render annual and periodical statements in the form and in the manner prescribed by the Board of Directors. He shall carefully preserve all books, documents, correspondence, and records of whatever kind pertaining to the business which may come into his possession. He shall prepare daily and file in the Association's office a grain statement which shall show the total amount of each kind of grain in the elevator, in transit unsold, contracted from farmers and undelivered, together with the total amount in store and due on open sales as well as the amount represented by purchases or sales of futures, all of which shall be arranged to show the net amount of each kind of grain long or short at the close of business each day.

SEC. 3. *Duty to insure.*—He shall be required at all times to keep the property of the Association well and fully insured which insurances must extend to and cover grain and property of all kinds, regardless of ownership, which may be in possession of the Association or stored by it.

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SEC. 4. *Control of help.*—He shall have control over and may employ and dismiss all agents and employees of the Association not specially employed by the Board of Directors.

NOTE.—The principal responsibility for success falls upon the Manager, and his power should be limited as little as possible. If he can not be trusted to administer the details of all the ordinary and usual business operations, he should be replaced with a Manager who is worthy of full confidence. The Manager and the Board of Directors should work together, but meddling on the part of individual members should not be tolerated. When cooperative elevators become involved in financial difficulty the cause is frequently due to speculation, not in futures nor always intentionally, but simply through failure to know each day the exact status of grain contracts, purchases, sales, and hedges. For this reason the daily grain statement in section 2 should be insisted upon.

ARTICLE VIII.—EARNINGS.

SECTION 1. *Apportioned.*—At the end of each fiscal year the total net earnings of the Association which remain over and above all expenses and a reserve for depreciation shall be apportioned in the following manner:

(*a*) *Surplus.*—There shall be appropriated for the purpose of creating a surplus not less than [ten] per cent of the net earnings until such surplus shall equal at least [fifty] per cent of the capital stock paid.

(*b*) *Dividend on capital stock.*—There shall be appropriated for the purpose of providing a dividend on capital stock a sum which shall equal but not exceed [six] per cent of the amount of capital stock issued and outstanding.

(*c*) *Educational.*—There may be appropriated for educational purposes and for promoting cooperation and improvement in agriculture a sum equal to [five] per cent of the net earnings.

(*d*) *Patronage refund.*—The remainder of the net earnings shall be apportioned upon patronage in accordance with the method stipulated in section 2.

SEC. 2. *Method of refund.*—The earnings upon grain operations, the earnings upon miscellaneous products, and the earnings upon supplies and merchandise operations shall be segregated into groups (*a*), (*b*), and (*c*), respectively. Additional groups shall be established only as are necessary to provide for various commodities handled on widely varying net margins. Special transactions handled on the basis of actual cost of service shall be excluded in computing patronage refunds hereunder.

(*a*) *Grain rate.*—The total net earnings which accrue from grain operations after deducting an equitable proportion of all expenses and the appropriations provided for in section 1 shall be divided by the total number of bushels of grain of all kinds bought by the Association during the year. The result shall be the patronage refund rate per bushel to be applied to grain purchased from members.

(*b*) *Miscellaneous products rate.*—Patronage refund rates for other products bought by the Association shall be determined in the same manner as provided for grain except that they may for convenience be determined upon the basis of money value, instead of per unit, at the discretion of the Board of Directors.

(*c*) *Merchandise rate.*—The total net merchandise earnings which accrue from merchandise and supplies operations after deducting an equitable proportion of all expenses and the appropriations provided for in section 1 shall be divided by the total volume in dollars of the merchandise sales during the year. The result shall be the patronage refund rate in per cent to be applied to merchandise sales.

NOTE.—When various kinds of products and supplies or merchandise are handled it may be desirable to establish different rates of refund based upon differences in margins and handling costs. In this case those commodities which carry the same or nearly the same margins and handling costs should be grouped and refund rates established to apply to each group. It will not be necessary except in rare instances to establish different rates of refund for the different kinds of grain handled. It is

almost the universal practice to fix the buying margins for the different kinds of grain with special reference to differences in handling cost. Therefore no further apportionment of expense is necessary, since the net margins will be about the same. Excessive earnings which accrue on some particular kind of grain usually are due to market changes after the grain has been bought from the farmers and are not the result of differences in first-hand buying margins. Exceptions will, of course, have to be made of certain kinds of grain handled under abnormal conditions.

SEC. 3. *Members' share.*—Each member shall receive patronage refund based upon the total volume of grain and other products sold to the Association and the volume of supplies and merchandise of all kinds bought from the Association during the year, which shall be computed by applying the refund rates as determined under division (*a*), (*b*), and (*c*) of section 2 hereof.

SEC. 4. *Nonmembers' share.*—Each nonmeber may receive patronage refunds under the provisions of this article at _____ the rate which is paid to members, provided that refunds appearing to his credit may first be applied to the purchase for him of one or more shares of the capital stock of this Association.

SEC. 5. *Disposal of unapportioned share and nonmembers' unapplied refund.*—If nonmembers share in patronage refunds at a rate less than the rate paid to members the difference may be diverted to the surplus of the Association or may be distributed among the members in such manner as the Board of Directors may determine. In like manner any portion of the patronage refunds payable to nonmembers which is not accepted under the conditions of section 4 may be similarly diverted or distributed, but patronage refunds payable to nonmembers shall be carried under separate account for a period of [two] years before being so diverted or distributed.

NOTE.—For the purpose of making income-tax returns under the Internal Revenue Laws, the special dividend provided for in this section should be kept separate from the refunds accruing upon members' patronage.

SEC. 6. *Notice of refund due nonmembers.*—At least once each year there shall be mailed to each nonmember entitled to refund, a notice which shall state the amount of refund due and the conditions under which the refund will be made, and which shall contain a suitable form of application for membership.

SEC. 7. *Capital impairment.*—In no event shall dividends on capital stock as provided for in division (*b*) of section 1, hereof, be paid out of the capital stock, but in case the earnings of the Association in any year shall be insufficient for this purpose, a sum equal to such deficiency may be set aside from the earnings of the following year before any portion of these earnings is made available for patronage refunds.

NOTE.—This article may appear to be unnecessarily specific and detailed, but a simple statement that earnings over and above expenses and certain reserve items shall be distributed on the basis of patronage furnished is capable of various interpretations and applications, and it is believed that a practical and definite plan should be determined upon and incorporated into the By-Laws in order that it may be applied uniformly at all times.

ARTICLE IX.—SUNDRY PROVISIONS.

SECTION 1. *Fiscal year.*—The fiscal year of this Association shall commence ——— and end on the —— day of the following ———.

NOTE.—Whenever possible, the fiscal year should end after the close of one season's business and before the opening of the next. Thus, a grain elevator usually has its fiscal year ending in spring or early summer, when practically all of the work of handling the previous season's business has been finished.

SEC. 2. *Indebtedness.*—The amount of indebtedness which may be incurred by or in behalf of this Association shall not at any one time exceed [two-thirds] of the paid capital stock.

SEC. 3. *Extension of credit.*—The business of this Association shall so far as possible be conducted on a cash basis. All accounts due and unpaid at the end of thirty days shall bear interest at the rate of — per cent from the date of sale and all sales tickets or bills of sale shall so state.

SEC. 4. *Collective buying.*—All merchandise purchased through the Association, other than that regularly carried in stock, shall be paid for in cash by the members ordering such supplies at the time of ordering the same, or the money may be deposited with a bank which has been approved by the Board of Directors, at the time of ordering.

NOTE.—Without such protection an organization purchasing supplies for its members may find that some of the members will refuse to take supplies ordered or will not pay promptly.

SEC. 5. *Withholding dividends.*—The Board of Directors may withhold the payment of a dividend on stock when in their judgment the condition of the business requires it, but no patronage refunds shall be paid during the period so withheld.

SEC. 6. *Withholding patronage refunds.*—The Board of Directors may withhold the payment of patronage refunds when in their judgment the condition of the business requires it. In every such case, however, each member shall be credited upon the patronage refund register or similar record with the amounts so withheld, and these funds shall not be confused with the surplus provided for under division (*a*) of section 1, Article VIII.

NOTE.—Withholding the dividends and refunds provided for in sections 5 and 6 furnishes working capital during the time in which the surplus is being accumulated gradually by the appropriation of 10 per cent of the annual net earnings. When the financial condition of the company will permit, the dividends or refunds of prior years may be paid. By this method the surplus is not accumulated at the expense of those who patronize the company during its first years of existence.

SEC. 7. *Emergency capital.*—At the time of uniting with this Association or at any time thereafter, when called upon by the Board of Directors, each member shall deliver to the Association his negotiable promissory note, payable on demand, to the order of the Association. Such note shall be for the sum of [twenty-five dollars] plus ——— per acre additional for each acre of crops to be grown by the members whose products are to be marketed through the Association. These notes shall be the property of the Association for the purpose of being pledged by the Board of Directors as collateral security for any loan that may be necessary in the conduct of the business of the Association. Any member's note shall be available in the settlement of any damage to the Association that may result from the failure of said member to make good his contracts.

NOTE.—This section is intended to supply capital which is needed only for short periods, as, for instance, during crop-moving time and other periods when emergency capital is required. Organizations which have a surplus for such purpose may not find it necessary to include this section in their By-Laws. If any member knows that the Association holds his note, which may be sold to settle any damage caused by his breach of contract, it will probably cause him to comply more carefully with the terms of that contract.

SEC. 8. *Speculation.*—Neither the Manager nor any other agent or employee of this Association shall during the period of his term of office or employment be permitted to deal or trade in futures or options in grain or other commodities or stocks in his own name or in the name of any other person or in the name of this Association except as it may be necessary to hedge actual purchases or holdings of grain or sales of stored grain and then only with the knowledge and consent of the Board of Directors. This Association shall so far as it is practicable avoid any and all speculation in grain, and shall not at any one time accumulate by purchase or contract an amount which in the aggre-

gate shall exceed _____ bushels unless the same shall be resold or be properly protected by sales of futures.

SEC. 9. *Corporate seal.*—The corporate seal of this Association shall consist of two concentric circles, between which shall be the name of this Association, and in the center shall be inscribed "[Incorporated 1920, Iowa.]" and such seal is hereby adopted as the seal of the Association.

SEC. 10. *Amendments.*—These By-Laws may be amended, repealed, or altered, in whole or in part, at any regular meeting of the members, or at any special meeting, when such action has been duly announced in the call, provided that three-fourths of the entire membership shall vote for such amendment, repeal, or alteration.

NOTE.—Any other matter which it is deemed desirable to regulate in the By-Laws may be provided for in this article.

STOCK SUBSCRIPTION AND MEMBERSHIP.

The work of the committee appointed to secure stock and membership subscriptions should proceed along lines which have been worked out carefully in advance. The entire community or territory from which membership is to be drawn should be laid off in districts and men should be selected to canvass the district who have a wide acquaintance and are favorably known in the community. The subscription lists may be circulated by persons other than those named on the subscription committee. It is neither necessary nor always advisable to have the men work in their own immediate neighborhoods. A record should be kept of each solicitor of the persons visited who have failed to subscribe and of the reasons given. If possible, these persons should be visited a second time by a different solicitor, in order to make sure that they have been approached in the right manner and that failure to subscribe is not due to personal differences between them and the first solicitor. It sometimes occurs that men who would make excellent members and who at heart are in favor of the enterprise will refuse to sign a subscription contract presented by a person whom they dislike. If possible, men who are generally regarded as substantial and of good judgment and enterprise should be visited first and their names secured to head the lists. The capital stock subscription contract (form No. 1) in the Appendix will furnish a model for subscription lists.

It will be desirable wherever possible to have the capital stock subscriptions solicited by a local committee. The employment of a special salesman to place the stock on a commission basis is seldom advisable and should be resorted to only when it is impossible to secure the right type of men to serve on the committee. In some States the selling of stock in a cooperative company on a commission basis is prohibited by law. When it is found necessary to employ a paid solicitor, the stock should in every case be sold at an amount above par sufficient to provide for his commissions. Selling the stock at par and paying a commission thereon burdens the com-

pany with a deficit at the outset. When capital stock can not be placed without the aid of a paid solicitor it may in most cases be taken as an indication that the community is not ready for organization.

In soliciting capital stock subscriptions care should be taken that extravagant statements are not made and that the members are not led to expect the impossible.

INCORPORATION.

When by-laws have been adopted tentatively by the prospective members, they will be used by the committee on incorporation as a basis for drafting the articles of association. If no by-laws have been agreed upon, the committee should draft a tentative form which, as far as it is possible to anticipate, will meet the requirements of the association.

If possible the articles of association should be drafted with the assistance of competent legal counsel and be made to legalize all matters set up in the tentative by-laws. The most able of counsel must know what an organization proposes to do, the activities to be carried on, and the means to be employed, before he can intelligently draft the articles of incorporation, or charter application, as it sometimes is called. It may be that upon examination by counsel the by-laws will be found to contain provisions that are not legal in the State in which the association is to be incorporated. In this case the by-laws will be changed to conform with the law. It may be that some of the objects expressed in the by-laws, which are objectionable in the form stated, may be attained by different means that will readily occur to the counsel when he has before him a definite and orderly statement of those objects. In this connection it may not be improper to point out that very able lawyers sometimes are not thoroughly acquainted with the objects and economic principles that control cooperative companies, and they may with the best of intentions advise organization on some plan with which they are more familiar and which offers less difficulties than does the organization of a truly cooperative association. Herein lies the value of having prepared and decided upon in advance a form of by-laws detailing completely and in orderly form those matters which distinguish the cooperative from the ordinary corporation form which usually appeals to lawyers, bankers, and others who are more familiar with the ordinary form.

The procedure for securing a charter varies in the different States and for that reason no detailed information can be given here. In general it may be effected by having a minimum of from 3 to 25 persons, depending upon statutory requirements, sign the articles of association, which articles or certified copies thereof are filed with certain State and county officers.

MEETING OF INCORPORATORS.

In case by-laws already have been decided upon and are tentatively adopted by the prospective members prior to incorporation, the next meeting becomes merely a perfunctory and formal meeting of the incorporators, who proceed to accept the charter and to legally adopt the by-laws and elect the directors already agreed upon. It is important that careful and accurate minutes be kept of the proceedings at all meetings, but those of the first meeting are especially important. It may be desirable to have a blanket form of minutes prepared in advance which legally and in proper sequence will cover the organization details, and to have the meeting proceed along the lines indicated by this form. (See Form No. 2.) All of the persons whose names appear as incorporators should ordinarily be in attendance at this meeting and the minutes should so indicate. When the number of incorporators is large and it is possible that some of them may be unable to attend the meeting it will be advisable to have them sign what is known as a call and waiver of meeting. This call and waiver of meeting is a notice which, in addition to stating the time, place, and purpose of meeting, contains a stipulation that the persons whose names are signed to it agree and consent to be bound by any action which may be taken at the meeting. (Form No. 3.)

The first order of business at the meeting, whether it consists only of the incorporators, or of the subscribers also, would be a consideration of the reports and recommendations of the several committees. The report of the committee on stock subscriptions and that of the committee on plant type and location will indicate the relation of capital subscribed to the plant capital required. Ordinarily a cooperative elevator company should not be organized until sufficient capital at least to cover the plant investment has been subscribed. It is much easier to secure capital subscriptions before organization than later. When the by-laws have been formally adopted the directors therein provided for should be elected, which completes the organization.

Immediately following the meeting of the incorporators or subscribers, as the case may be, the directors should meet for the purpose of organizing the board and electing their officers. If it is impossible to meet, then they should all sign a call for a future meeting, for as yet no one member has the authority to call a special meeting. This meeting is opened by any one of the members of the board. A temporary chairman and secretary are appointed, followed by the election of permanent officers according to the by-laws form. The board of directors at the beginning of their term in a newly organized company will find much to do and the frequent meetings may be arranged more conveniently by adjournment from time to time than by calling special meetings.

CHANGING FORM OF ORGANIZATION.

It will be highly desirable for those farmers' elevator companies which are cooperative in purpose but for reasons already stated are not cooperative in form or effect to change to the cooperative plan before too many of their members have retired from active farm life and while the interests of producing members are still paramount. The change may be effected in several ways, but only two methods are of special interest to farmers' elevator companies:

(1) In some States the change may be brought about by a formal declaration of intent on the part of the stockholders holding a majority of the voting shares, to come under and be governed by the particular legislative act or statute providing for the incorporation of cooperative companies, and by a certification of the fact to certain State and county officials.

(2) The old corporation may be dissolved and a new one formed to carry on the business on the cooperative plan. In this case the affairs of the old organization should be closed as if reorganization were not intended, but in the distribution of the corporation assets the interests of the individual stockholders in the old organization who desire to be members of the new organization may be assigned in payment for stock in the new organization, unless, of course, capital stock subscriptions are by State law required to be paid in cash. The assets of the old organization thus would be transferred to the new organization and the claims of stockholders in the old organization who are unwilling to become associated with the new one may be settled by cash payment. Under this method new members may be admitted by means of stock subscriptions and the stock interests of old members may be limited or apportioned to the same extent as if they were new members, differences being adjusted by cash payment.

Any method is easily applied when the stockholders of the old organization are unanimously agreed to it. All methods offer difficulties when there are dissenting stockholders. The first method seems to be the one generally used in States in which it is authorized. The following language is typical of State statutes defining the kinds of companies which may take advantage of this method:

> All cooperative corporations, companies, or associations heretofore organized and doing business under prior statutes or which have attempted to so organize and do business shall have the benefit of all the provisions of this act and be bound thereby on filing with the Secretary of State a written declaration, signed and sworn to by the president and secretary, to the effect that said cooperative company or association has, by a majority vote of its stockholders, decided to accept the benefits of and be bound by the provisions of this act.

Whether or not an ordinary capital stock corporation, owned and controlled by farmers, but which operates strictly as a profit corporation, and not having recognized or attempted to incorporate into its

by-laws or plan of operation the patronage dividend or other features which especially characterize cooperative companies in the new statute, would be entitled to declare itself a cooperative company for the purpose of coming under the provisions of this law may be open to question. There may be opportunity for proper objection on the part of dissenting stockholders claiming a right to share in future profits under the arrangement in force at the time of becoming stockholders. However, no serious difficulties are usually encountered, since most of the stockholders who are inclined to dissent realize that they can not control against a majority of the members and that they will fare better to accept the terms offered them than to have a new company organized, the old organization abandoned, and its property brought to forced sale in dissolution proceedings.

In reorganizing it sometimes is found desirable to fix the property interest which members have in the surplus or undivided profits of the old organization. Some of the members of the old organization may not wish to be members under the new arrangement; perhaps new members are to be admitted, which makes it necessary to fix the interests of old members before they shall become confused with the interests of new members. Several methods are open, none of which is entirely free from objection under all conditions:

(1) The surplus may be distributed in the form of a cash dividend.

(2) The surplus may be distributed in the form of a stock dividend, each member receiving additional stock shares in an amount equal to his share in the surplus.

(3) The surplus may be left intact but new members may be required to pay for stock an amount above par which will make their contribution to the surplus fund equal to the interests of the other members.

In many instances the business of the old organization has been extended and the surplus employed in such manner as to make it practically impossible to distribute it by cash dividend, and the first method can rarely be employed to advantage.

Many companies find objection to the second method for the reason that increasing the capital stock increases the amount of interest or dividend on capital stock required to be paid before any of the earnings are available for patronage refunds. A more vital objection would seem to be that when the surplus is converted into capital stock the impairment of such capital stock through possible business loss assumes a far more serious aspect than a depletion of the surplus through the same cause. It may also occur that when a member is the owner of shares up to the limit which is allowed a single member, the conversion of surplus into capital will have the effect of giving to a member shares of stock in excess of the number which he is entitled to hold.

The third method leaves the question of surplus open except in so far as it is used as a basis for fixing the real value of shares in the old organization. Under this method a new organization would be formed with a capital stock and proposed surplus identical with that of the old, the effect being to make the true value of shares in the new organization an amount above par exactly identical with the value above par of the shares in the old organization. It would be necessary to place the value of shares to new members at a price above par value which would make their contribution to the surplus equal to that contributed by the old members, or in other words, equal to that which the old members would have received had the surplus been distributed as a cash dividend.

In point of fairness to the members of the old organization and safety to the new organization the last method would seem to be the best. The chief objection would be the difficulty of convincing members that book value or true value as measured by the surplus should form the basis of price rather than the par value which happens to be printed upon a stock certificate and which may as frequently appear on stock certificates representing stock of no value.

GENERAL SUGGESTIONS.

SELECTION OF PLANT.

The selection of the type of plant and the location involves two problems. The first and most difficult is that of deciding whether to purchase an existing elevator plant or to build a new one. It usually is considered advisable to purchase one of the local elevators if one is for sale and if it is found suitable for the purpose. The next problem is to proceed in such manner that an excessive price will not be placed upon the elevator which it is desired to purchase.

"Good will," which in certain commercial organizations is placed at high value, usually is of minor consideration to a cooperative association, because it depends principally upon a membership for patronage. This fact should be presented fairly and fully to the owners of the property under consideration, and an option of purchase should be secured from them. After a company has been formally organized and before any property is purchased the services of a reliable and disinterested consulting engineer should be secured to examine and appraise the property and to determine what repairs and improvements are necessary to make it entirely suitable and capable of efficient operation. The services of such a person are usually well worth the cost whether it is decided to buy or to build a plant. If it is decided to build, his services will be needed in checking the estimates and proposals of the different contractors who are invited to submit plans and bids. Not always can the proposal of

the lowest bidder be accepted as being the cheapest, and it is desirable to have some disinterested expert analyze the different proposals in detail and later to protect the interest of the association by seeing that the work is done according to contract terms. While the size and equipment of the plant must depend always upon local conditions, a smaller and better equipped plant is preferable to one larger and less efficiently equipped. It should be remembered that a large storage capacity may be desirable for certain purposes, but that with such a plant there is ever present the temptation to fill it. During periods when cars are difficult to obtain and the condition of grain is such that it can be stored on the farm more safely than in an elevator it is almost impossible for managers to refuse to receive grain while a storage space remains, and the chance for financial loss through deterioration is made the greater by having excessive storage capacity. An elevator which has a capacity of from 25,000 to 35,000 bushels, equipped in a modern manner, and which is capable of being emptied quickly when cars are available seems to be the plant generally favored by elevator companies which do not make a practice of storing grain for a storage charge. In the selection of a plant type it may be well to have in mind possible extensions and enlargements and to plan accordingly. Concrete construction offers stability and economy in insurance costs. On the other hand, wood and steel offer advantages when remodeling to meet change of conditions or when it becomes necessary to abandon and wreck the plant. The correct type can be determined only with reference to specific local conditions and requirements.

DIRECTORS.

The directors are responsible to the membership for the successful conduct of the affairs of the organization. The type of men selected for directors will have much to do with keeping the confidence and loyalty of the membership. They should possess keen business judgment, but in carrying out their duties they should be able to subordinate their private interests and to work for the welfare of the organization. Men with a reputation for honesty and for open-minded conservative judgment are to be preferred. They should, of course, be competent and should believe in the cooperative system.

MANAGER.

The most important duty which the directors will have to perform is the selection of a business manager. All personal preference must be laid aside, and the interests of the company as a whole be considered. The position of manager of a cooperative elevator company is a peculiarly difficult one; the individual members must be satisfied and at the same time the financial interests of the company con-

served. It requires a man with tact, with ability to appraise human nature, and with the rare faculty of being able to decide impersonally against individual members in matters of controversy without giving offense.

A manager must possess a high sense of duty regarding his own responsibility toward the company in addition to a keen understanding of the equitable relations to be maintained between the individual members. It is not difficult to please so long as one may compromise every difficulty that arises, but such a course means general satisfaction for a time, then financial disaster, for difficulties will present themselves which can not always be settled in favor of the individual member and against the company. A manager having previous experience in a farmers' elevator where the business of both buying and selling is conducted and the general accounts are kept under the direct supervision of the manager should be employed if possible. Many high-class men are to be found among the local agents of the so-called line elevators, but the experience of these men, which in the main consists of buying wholly in accordance with instructions from a central office, does not usually fit them to take the responsibility and initiative required of the manager of a cooperative grain elevator. He not only must buy and sell upon his own judgment but must have some knowledge of corporation accounting and be qualified to stand on his own feet in every emergency. A high type of business man with little or no experience in grain is to be preferred to an inexpensive type of man with much experience in the simple routine of weighing and dumping grain and of issuing checks in settlement. Before employing any one as manager the directors should check carefully his past record and should not rely too much upon letters of recommendation which may be in his possession. The farmers' elevator companies in the States of Illinois, Iowa, Kansas, Nebraska, Minnesota, North Dakota, South Dakota, Indiana, Ohio, Oklahoma, Colorado, Michigan, and Missouri now have State organizations,[1] the secretaries of which are in a position to render valuable assistance in locating managers for new companies and in furnishing reliable information concerning the personal records of men who claim to have had experience. The State agricultural colleges of a number of these States likewise are in a position to give assistance.

STOCK CERTIFICATES.

It is not necessary that stock certificates be ready to issue to the members at the time of the payment of their subscriptions, but an

[1] Generally designated as "Farmers' Grain Dealers Association" of a particular State. The secretaries are at present located in the different States as follows: Bloomington, Ill.; Fort Dodge, Iowa; Hutchinson, Kans.; Omaha, Nebr.; Benson, Minn.; Thompson, N. Dak.; Sioux Falls, S. Dak.; Wolcott, Ind.; Defiance, Ohio; Lambert, Okla.; Denver, Colo.; Pontiac, Mich., and Montgomery City, Mo.

ordinary receipt may be given instead, which receipt is taken up when regular stock certificates are issued. The plan of organization presented in this bulletin contemplates that certain by-law provisions shall be printed upon the stock certificate, and for this reason it may not be practicable to use the regular stock form usually carried by stationers. However, it may be possible to select a stock form on which the special provisions may be printed upon the back of the certificate by the local printer, in which case a reference to these provisions should be made upon the face of the certificate. Care should be exercised that these stock forms do not contain matter which vitiates or conflicts with the special provisions.

MAINTENANCE AGREEMENT.

Persons having a knowledge of the early struggles of farmers' elevators in the United States may wonder at the absence in the suggested form of by-laws presented in this bulletin of the so-called penalty clause, which at one time was regarded as of much importance. Men who are familiar with the real intent and purpose of the first use of this clause, which in its most simple form provided for the payment to the company of a charge of 1 or 2 cents per bushel for every bushel of grain which any member of the company should market through other agencies or dealers, state that the idea of a penalty was entirely foreign to its purpose and that it was intended only as a voluntary and mutual arrangement whereby, if it became apparent that outside dealers were paying more for grain than it actually was worth in order to discredit the cooperative company, each member would contribute to the support of his company in the manner provided and as long as these conditions existed. The members would then sell their grain to such outside dealers, making these dealers fall victim to their own competitive methods. It provided an equitable means for contributing to the support of the cooperative company during an emergency. Other companies copied the idea but lost sight of its real purpose and tried to make it a coercive means to compel patronage. Used in that way its presence in the by-laws has served only to antagonize the members, and, quite aside from the legal difficulties which are in the way of enforcing such a provision, it is believed to have outlived its general usefulness. The patronage dividends in a truly cooperative company should furnish every inducement necessary to secure the patronage of the members without coercive means.

In case it becomes necessary to meet conditions brought about by other dealers paying more for grain than it actually is worth in order to discredit the cooperative company, a direct personal appeal to the members, stating frankly existing conditions and probable

conditions in the absence of the cooperative company, would seem to be a better method. This might be followed by an attempt to protect and maintain the company in operation by means of a special contract arrangement. Companies that wish to incorporate into their by-laws a substitute for the so-called penalty clause may provide therein that each member upon uniting with the association shall sign and enter into a contract of the form presented in the Appendix of this bulletin. (Form No. 8.)

It is believed that such an agreement when signed by the members will be much more effective and will withstand legal objections to a much greater extent than will any liquidated damage or penalty clause which can be devised and incorporated into the by-laws. Unlike the usual penalty or liquidated damage clause, it does not rest upon any assumption of damage, but upon a tangible and valuable service which is sold to the member for a charge. The rate of charge varies with the kind of service rendered and is applied to all grain marketed by a member, with the exception, that upon grain sold to the association, the charge is included with the usual buying margin and is not applied separately.

EMERGENCY CAPITAL.

The means whereby emergency capital is being provided by many companies deserves some attention. Comparatively few organizations have sufficient capital to carry them over the periods of heavy marketing without having to resort to loans. This is especially true of the new company which has not had an opportunity to accumulate surplus funds. The capital required at such times often exceeds the corporate borrowing power. It is neither necessary nor always desirable that an organization should have sufficient capital of its own to meet these emergencies, but frequently directors are required to pledge their own personal credit for these loans, which manifestly is unfair. The directors in many cases are placed in the position of having exceeded their corporate authority, and in the event of financial difficulty might be placed in an embarrassing situation. Sometimes the more prosperous members are prevailed upon to postpone grain settlements until after the period of heavy movement. This is equally unfair, since they are then placed in the position of unsecured creditors and are thereby required to assume individual responsibilities and risks not shared by the membership as a whole. Emergency capital is necessitated by the business in its entirety and should be furnished by the entire membership. If each member can be induced to give his accommodation note for a just proportion of the emergency capital requirements, and such note be made available for the purpose of collateral security to support emergency loans

only, the responsibility to a great extent will be divided among the membership. A suggested form of loan note is presented in the Appendix. (Form No. 9.)

In some communities there is a deep-seated prejudice against the giving of notes for any purpose, and it may be difficult to secure from the members the individual loan notes here suggested. Where this condition exists it may be less difficult to get all of the members to sign one contract in common whereby each member guarantees the credit of the association up to and including some definite amount to be placed opposite his signature. For this purpose the form for a loan guaranty (No. 10) in the Appendix may be used.

SPECULATIVE TENDENCIES.

A weakness on the part of farmers' elevator organizations which possibly is responsible for more failures than all other causes combined is the lack of an effective safeguard against well-meaning speculation. Managers buy grain with a definite margin of profit in view. In many cases this margin is determined by bids or offers in hand on which grain may be sold. Between the time of purchase and the time when sale conveniently can be made, market changes take place which affect the bids or offers on which the purchase price was based. Should the effect of these changes be too narrow or liquidate the expected margin a temptation is presented to hold the grain for a reaction which may not come. Should the effect of market changes be to increase the visible margin, the manager may feel that the market trend is upward and be inclined to speculate with the excess margins in the hope of increasing them still further. Not infrequently the tendency upon the part of managers to speculate in this way is encouraged by directors in the organization who are glad to receive the benefits of successful speculation but who are not slow to shift responsibility when the manager is found on the losing side of the market.

Steps should be taken by members, directors, and managers to agree upon some definite policy, which policy should be strictly adhered to. If cars can not be secured with which to take care of time shipments and purchases can not safely be hedged, it is an inopportune time to permit purchased grain to accumulate in the elevator. The risk of loss through declining markets should not then be allowed to shift from the individual member to the organization. Grain should remain on the farm or in storage until such time as a price that is fair to the farmer can be fixed, and the handling charge can be definitely determined. The directors should be directly responsible for the preparation of a daily statement by the manager or bookkeeper which should be filed in the office of the company and

which should show the number of bushels of grain of each kind which is being carried unsold or oversold as the case may be. Failure of the manager to keep within a stipulated number of bushels long or short should be followed by dismissal. The province of a farmers' elevator is extensive, and its legitimate activities are many, but speculation, well-meaning or otherwise, is foreign to its intent and purpose and must be carefully guarded against if lasting and worth while success is to be attained.

APPENDIX.

NOTES TO FORMS.

No. 1. *Capital Stock Subscription Contract.*—This form is intended for use when capital-stock subscriptions are solicited prior to organization. After incorporation the stock-subscription contract may be in the following form:

"We, the undersigned, do apply for membership in [The _____ Grain Growers' Cooperative Association], a corporation organized and incorporated under the laws of the State of _____, having its principal office at _____, _____, and we hereby severally subscribe for and agree to take the number of shares of the capital stock of said corporation placed opposite our respective names at the par value of $_____ each, paying cash therefor upon demand."

No. 2. *Minutes of Members' First Meeting.*—This form is not intended to cover all of the matters which are to be acted upon at the first meeting, but will be useful only as a suggestion for the preparation of the blanket form of minutes referred to on page 23 of this bulletin.

No. 3. *Call and Waiver of Notice.*—This is the form also referred to on page 23 of this bulletin, and it should be signed by all of the incorporators pursuant to the first meeting of the stockholders.

No. 4. *Notice of Special Meeting of Members.*—This form needs no explanation further than that it must conform to the method of calling special meetings agreed upon in the by-laws, which in turn must be in compliance with statutory requirements.

No. 5. *Stock Certificate.*—Care must be taken that by-law provisions relating to the transfer of stock, limitation upon ownership, or other restrictions or reservations, which are printed upon the stock certificates are made to conform exactly with the by-laws as adopted.

No. 6. *Personal Guaranty of Indemnity on Issue of New Stock Certificate in Lieu of Lost Certificate.*—This form may be used when the person to whom a duplicate certificate is issued is fully responsible for any loss which may be incurred in consequence of two certificates for the same shares being outstanding at the same time.

No. 7. *Bond of Indemnity for Lost Certificate.*—This will be used when additional security is deemed necessary for possible loss growing out of the issuance of duplicate certificates of stock.

No. 8. *Service and Maintenance Agreement.*—This is referred to on page 30 of this bulletin as a substitute for the objectionable penalty clause sometimes used when it is desirable to provide against the possibility of members selling their products outside the association. Its use is recommended in special cases only and not as a part of the general operating plan for cooperative elevator companies.

No. 9. *Member's Emergency Loan Note.*—This is an ordinary demand note used by the association only as collateral to support loans required during emergency periods. It is in fact a means whereby the individual member loans his credit to the association for a limited amount. Upon withdrawal from membership the notes are, of course, returned to the maker.

No. 10. *Loan Guaranty.*—This form is suggested as a substitute for the loan note (Form No. 10) when it is found desirable to have all of the members sign the same instrument. In making changes in this form care must be taken that each individual member is not made jointly and severally liable with the cosigners for the full amount of the loan liability, or the purpose of the contract will be defeated.

Form No. 1.

CAPITAL STOCK SUBSCRIPTION CONTRACT.

We, the undersigned, for the purpose of forming a cooperative association at ..... to be incorporated under the laws of the State of ..... with an authorized capital of $..... and to be known as [The ..... Grain Growers' Cooperative Association] or by similar name, hereby severally promise and agree to become stockholders in a corporation hereafter to be organized and to take the number of shares of stock placed opposite our respective names at the par value of $..... each, paying cash therefor upon demand when the corporation shall be organized and when at least $..... shall have been subscribed.

Names.	Addresses.	Shares.	Amount.
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....

Form No. 2.

MINUTES OF MEMBERS' FIRST MEETING.

Pursuant to a written call and waiver of notice signed by all of the incorporators, the first meeting of the stockholders and members of [The _____ Grain Growers' Cooperative Association] was held at [here state time and place of meeting].

Meeting was called to order by _____ and on motion by _____, _____ was elected chairman, and _____ was appointed secretary.

The secretary presented and read the call and waiver of notice, pursuant to which the meeting was held. On motion it was ordered to be entered in the Book of Minutes following these minutes:

The following persons were present: [Names of those present at the first meeting].

The chairman presented a [certified copy of the Certificate of Incorporation or Charter as the case may be] and stated that the original had been [here state time and place of filing or other procedure]. On motion it was ordered that same be entered on the first pages of the Book of Minutes.

The secretary presented a form of by-laws prepared and recommended by [committee or counsel], which was read article by article, and as a whole, unanimously adopted and ordered to be entered in the Book of Minutes immediately following the [Certificate of Incorporation or Charter].

Next was conducted the election of [seven] directors as provided for in the By-Laws, Messrs. _____ and _____ being first duly appointed inspectors of election. All the stockholders having voted by ballot cast in person, the inspectors reported results as follows:

FOR DIRECTOR.

Name.	Votes.

The above-named persons were thereupon declared to be duly elected directors of the association.

On motion duly made and seconded, the following resolutions were unanimously adopted: [Any special actions taken].

There being no further business the meeting was declared adjourned.

_____ _____

Chairman. *Secretary.*

In pursuance of the preceding minutes, the following forms are entered in the Book of Minutes: [Call of meeting, Certificate of Incorporation, By-Laws, etc.].

_____

Secretary.

Form No. 3.

CALL AND WAIVER OF NOTICE FOR FIRST MEETING OF STOCKHOLDERS.

We, the undersigned, being all of the incorporators of [The _____ Grain Growers' Cooperative Association], a corporation organized under the laws of the State of _____, and all of the subscribers to the capital stock of the corporation entitled to notice, do hereby call the first meeting of stockholders to be held at _____, at ____ o'clock, on the ____ day of _____, 192__, for the purpose of accepting the charter, adopting by-laws, electing directors, [description of any other specific business to be transacted], and to consider and act upon all other business that may properly come before this meeting. We do hereby waive all requirements as to notice or publication of the time, place, and purposes of the first meeting and do consent to the transaction of any and all business pertaining to the affairs of this corporation.

Dated at _____ this ____ day _____, 192__.

[Signatures of incorporators]:

Form No. 4.

NOTICE OF SPECIAL MEETING OF MEMBERS.

_____, 192__.

Mr. _____,

_____.

DEAR SIR: You are hereby notified that pursuant to a call of the Board of Directors of [The _____ Grain Growers' Cooperative Association] a special meeting of the members of the Association will be held at [state exact time and specific place of meeting], for the purpose of [describe accurately the purpose of meeting], and for the transaction of any and all business in connection therewith which may properly come before said meeting.

Yours very truly,

_____,

Secretary.

Stub.]

Certificate No. .....

for.....Shares

Issued to

.....

.....

Date.....,19....

Transferred from

.....

Date.....,19....

Original Certificate Number.	Number of Original Shares.	Number of Shares Transferred.

In consideration of the issuance to me of this certificate of stock No. ..... for ..... shares of the capital stock of [The.....Grain Growers' Cooperative Association] of .....,

.....,

I do hereby agree to all of the conditions, restrictions, limitations, and reservations stipulated in the By-Laws and amendments to the By-Laws of this Association and more specifically in Section 5 of Article II and sections 2, 3, and 4 of Article III which are set out in full on the certificate and made a part of this agreement. I have received the said certificate of stock this ..... day of .....,19.....

.....

Signature of Member.

Witness: .....

Form No. 5.

STOCK CERTIFICATE.

[THE ..... GRAIN GROWERS' COOPERATIVE ASSOCIATION] Par Value of Shares $.... Each

A Cooperative Company

Incorporated under the laws of the State of .....

No..... Authorized capital $.....

THIS CERTIFIES THAT ..... is the owner of ..... Shares of the Capital Stock of [THE ..... GRAIN GROWERS' COOPERATIVE ASSOCIATION] .....,

....., fully paid and nonassessable, and is a member of said Association.

This certificate No. .....is issued and accepted in accordance with and subject to the conditions and restrictions stipulated in the By-Laws and amendments to the By-Laws of [The.....Grain Growers' Cooperative Association] and more specifically in section 5 of Article II and sections 2, 3, and 4 of Article III, to wit:

Article II, "Section 5. *Stock Transfers.*—Transfers of stock shall be made only upon the books of the Association, and before a new certificate is issued the old certificate must be surrendered for cancellation. The transfer of stock may be refused unless any and all indebtedness to the Association by the member shall first be paid. The stock books of the Association shall be closed for transfer [ten] days before the annual membership meeting and [ten] days before the time set for payment of interest and patronage refunds."

Article III, "Section 2. *Termination.*—At any time a member shall remove from the territory tributary to the shipping points of this Association, the Association may elect to purchase his shares of stock and to terminate his membership upon tender to him of the book value of his shares as determined from the last preceding financial statement, together with any dividends or refunds due and unpaid, less any indebtedness then due the Association. Such shares shall then become treasury stock of the Association."

Article III, "Section 3. *Restrictions.*—No member shall own more than .... shares of the capital stock of this Association at any one time and no member shall be entitled to have more than one vote at any meeting of the members regardless of the number of shares owned. Every member upon uniting with this Association agrees that in case he shall desire to dispose of his shares of stock in the Association, the Association shall have the first right to purchase the same at their book value, and that no offer of assignment or sale shall be made to any person or interest until the Association shall fail either to waive this right or purchase the shares after.....days' notice in writing."

"Any transfer of shares by assignment or sale shall give the assignee or purchaser no other right than to require upon.....days' notice in writing, an election by the Board of Directors either to admit the holder to membership or to tender him the book value of such shares, together with any dividends and refunds then due and unpaid."

Article III, "Section 4. *Reversions.*—If any member shall by purchase or by operation of law come into possession of more than .... shares of the capital stock of this Association, the Board of Directors may elect to purchase such excess shares upon tender to him of the book value thereof, together with any dividends or refunds due and unpaid. Also in the event of the death or disability of the owner of any shares of stock in this Association such shares of stock shall revert to the Association upon the tender of payment by it to his heirs or legal representative, the book value of same, together with any dividends or refunds due and unpaid, or it may elect to transfer such shares to his heirs or legal representatives"—

all of which is made a part of the signed agreement and receipt which appears on the stub-record bearing the same number and date as this certificate.

IN WITNESS WHEREOF, the duly authorized officers of this corporation have hereunto subscribed their names and caused the corporate seal to be hereunto affixed this ..... day of ....., A. D. 19....

[SEAL.]

..... *Secretary.*

..... *President.*

(Back of stock certificate.)

FOR VALUE RECEIVED ..... hereby sell, transfer, and assign to .....

.....

shares of stock within mentioned and hereby authorize .....

.....

to make the necessary transfer on the books of the corporation.

Witness .... hand and seal this ..... day of ....., 19....

.....

Witnessed by: .....

.....

CERTIFICATE for.....Shares of the Capital Stock of [THE....GRAIN GROWERS' COOPERATIVE ASSOCIATION]

Issued to .....

Dated .....

Form No. 6.

PERSONAL GUARANTY OF INDEMNITY ON ISSUE OF NEW STOCK CERTIFICATE IN LIEU OF LOST CERTIFICATE.

To [The _____ Grain Growers' Cooperative Association]:

In consideration of a duplicate certificate, numbered _____, for _____ shares of the capital stock of the above-named Association, having this day been issued to me _____, in lieu of the certificate numbered _____ for the same shares previously issued to and now owned by me, which has been lost [or, accidentally destroyed] by me, I hereby undertake to refund to and to indemnify the said Association against all costs and expenses and all loss which may be incurred by the said Association in consequence of two certificates for the same shares being outstanding at the same time.

Executed at _____, this ____ day of _____, 19__.

_____

Form No. 7.

BOND OF INDEMNITY FOR LOST CERTIFICATE OF STOCK.

Know all men by these presents that we, _____, of _____, as principal, and _____, of _____, as surety, are held and firmly bound unto [The _____ Grain Growers' Cooperative Association], a corporation organized under the laws of the State of _____, in the sum of _____ dollars, to be paid to the said [The _____ Grain Growers' Cooperative Association], its successors and assigns, for which payment well and truly to be made,

we bind ourselves, our heirs, executors, and administrators, firmly by these presents.

Sealed with our seals this _____ day of _____.

The condition of this obligation is such that:

Whereas, the said [principal] is the owner of record of _____ shares of the capital stock of the said Association, of the par value of [$50.00] each, and has made application to the said Association for the issue of a new certificate for the said _____ shares of stock, alleging that the original certificate issued to him for said shares, numbered _____ and dated the _____ day of _____, is lost [or, destroyed]; and, whereas, the said Association has this day issued to the said _____ a new certificate for the said _____ shares of stock:

Now, if the said obligors shall at all times defend, save harmless, and indemnify the said [The _____ Grain Growers' Cooperative Association], its successors and assigns, from and against all claims, demands, and actions arising from or on account of the said original certificate, and against all damages, costs, and expenses by reason thereof, and shall deliver or cause to be delivered up to the said Association for cancellation the said original certificate if the same shall be found, then this obligation shall be void; otherwise it shall remain in full force.

[Signatures and seals]:

Form No. 8.

SERVICE AND MAINTENANCE AGREEMENT.

THIS AGREEMENT, made and entered into at _____ on this _____ day of _____, A. D. 19__, between [The _____ Grain Growers' Cooperative Association], a corporation organized and existing under the laws of the State of _____, having its principal place of business at _____, in said State, hereinafter called the Association, and _____ of _____ County, _____, hereinafter called the Grower, witnesseth:

THAT FOR AND IN CONSIDERATION—

1. That the Association shall establish, equip, and maintain an office and grain elevator at _____, _____, and there provide equipment, facilities, and means for weighing, grading, shipping, and handling wheat, corn, oats, and barley of different variety and grade.

2. That the Association shall there provide and have available to the Grower, market news and other information concerning the values and market condition of wheat, corn, oats, and barley, of different variety and grade, and shall furnish the same to the Grower on request.

3. That the Association shall there employ and have available to the Grower the services of an elevator Manager whose duty it shall be to secure and to furnish to the Grower upon request, in so far as it is practicable, all special market news, and other information and advice which the Grower may require relative to the marketing of grain and the procurement of seed grain.

4. That the Association shall weight and grade any and all grain of the kinds herein described, whether sold to or marketed through the Association, or to or through any other dealer or agency, which the Grower shall present for weighing and grading at the Association's office at _____, _____.

THE GROWER AGREES to pay the Association for such advantages, privileges, use, market news information, and weighing and grading service at the rate of [one cent] per bushel for each and every bushel of wheat, corn, oats, and barley which the Grower shall sell or market either directly or indirectly to or

through the Association or to or through any other dealer or agency during the life of this contract. Such charge shall become due and payable immediately upon the sale or delivery of any and all grain, but shall not be applied to any grain which the said Grower shall have grown or come into possession of in territory not tributary to the shipping points of the Association.

It is Mutually Agreed that upon all grain which the Grower shall sell to the Association or which he shall require the Association to handle through its elevator and warehouse at _____, _____, the charge of [one cent] per bushel herein stipulated to be paid shall not be in addition to, but shall be a part of the whole charge or charges which may hereafter be established for elevation and loading and for other services and handling.

It is Further Agreed that either party may terminate this contract on the first day of [July] of any year by giving notice in writing to the other party at least [ten] days prior to said date of the intent to so terminate. Termination shall then be effective on the said [first day of July], otherwise the contract shall continue in full force and effect so long as the Grower shall reside in territory tributary to the Association's office and shipping points, or shall continue to market any wheat, corn, oats, or barley in said territory.

In Witness Whereof the said parties have executed these presents in duplicate the day and year first above written.

[The _____ Grain Growers' Cooperative Association.]

By _____,
President.

_____,
Grower.

Witness:

_____

Form No. 9.

MEMBER'S EMERGENCY LOAN NOTE.

_____19____

On demand, for value received, I promise to pay to [The _____ Grain Growers' Cooperative Association] or order, _____ Dollars $_____ without interest.

_____

Payable at:

_____

Form No. 10.

LOAN GUARANTY.

To _____ Bank:

In consideration of your having at our request agreed to advance to [The _____ Grain Growers' Cooperative Association] any sums of money it may require during the life of this contract, not to exceed at any one time the total amount guaranteed hereunder:

We, the undersigned members of [The _____ Grain Growers' Cooperative Association] hereby guarantee to you the repayment by the said [The _____ Grain Growers' Cooperative Association] of all sums of money

advanced by you to it as aforesaid, with interest at the rate of ____ per cent per annum, but subject to the limit on our aggregate and individual liability hereafter expressed.

1. This guaranty shall be a continuing guaranty, but our aggregate liability shall not under any circumstances exceed the sum of $_____, and the proportionate share or liability of each of us individually in respect of the said sum shall not exceed in amount the sum placed opposite our respective signatures at the foot hereof.

2. Within the aforesaid limits of liability this guaranty shall extend and be applicable to the whole debt that shall ultimately be due to you from [The _____ Grain Growers' Cooperative Association] in respect to money advanced by you to it as aforesaid, and not merely to so much thereof as shall be co-extensive with our aforesaid maximum aggregate liability hereunder.

3. You shall be at liberty without discharging us from our liability hereunder to grant time or other indulgence to the said [The _____ Grain Growers' Cooperative Association] in respect to money advanced by you to it as aforesaid, and to accept payment from it in cash or by means of negotiable instruments, and to treat with it in all respects as though we are jointly liable with it as debtors to you instead of being merely sureties for the debtor.

4. In order to give full effect to the provisions of this guaranty we hereby waive and each of us hereby waives all suretyship and other rights inconsistent with such provisions and which we might otherwise be entitled to claim and enforce. We hereby waive and each of us hereby waives all notice respecting your acceptance of and assent to this guaranty and all notice necessary to charge us as guarantors hereunder.

5. Each guarantor shall be at liberty at any time to withdraw from all liability hereunder on payment to you of such sum as shall represent the proportion which his individual liability hereunder shall bear to the aggregate sum of advances made to [The _____ Grain Growers' Cooperative Association] and remaining unpaid at the time of his withdrawal. In the event of the death of any surety his personal representatives shall be at liberty to exercise a like power of withdrawal, and shall thereby relieve his estate from future liability under this guaranty.

Executed at _____, this ____ day of _____, 192____.

Signatures of Guarantors:	Amount Guaranteed:
_____	_____
_____	_____
_____	_____
_____	_____

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